

COUNTY OF LOS ANGELES

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DEPARTMENT OF MENTAL HEALTH

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Reply To: (213) 738-4601
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May 12, 2006

TO: Each Supervisor

FROM: Marvin J. Southard, D.S.W.
Director of Mental Health

SUBJECT: **FISCAL YEAR (FY) 2006-07 BUDGET REDUCTION PROPOSAL AND
MULTI-YEAR PLAN TO ELIMINATE DEPARTMENT OF MENTAL
HEALTH (DMH) STRUCTURAL BUDGET DEFICIT**

On May 9, 2006, on motion of Supervisor Molina, your Board instructed us to provide a report detailing our plan to address the \$48.3 million budget deficit reflected in the FY 2006-07 Proposed Budget. In addition, we were instructed to provide a multi-year plan to eliminate the structural budget deficit primarily created by the previous use of one-time funding for ongoing services.

Your Board also requested information on the Department's hiring plan for the 260 additional positions requested in the Board letter requesting approval to implement the Community Services and Supports (CSS) Plan, funded by the Mental Health Services Act (MHSA), as well as the 86 new positions requested in the FY 2006-07 Proposed Budget.

We have worked closely with staff from the Chief Administrative Office (CAO) to develop a plan to partially address the budget deficit in FY 2006-07. Bridge funding of \$17.7 million will be needed to allow for full implementation of the proposed reductions by June 30, 2007. We have also jointly developed plans for FYs 2007-08 and 2008-09 that ensure a balanced budget.

Factors Causing the Projected Deficit

Due to a fundamental gap between revenues and expenditures, the budget deficit we face is considered "structural" in nature. Several factors have contributed to the Department's structural budget deficit in FY 2006-07. These include:

- The use of one-time funds for ongoing operations,

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- The **lack** of any growth in Sales Tax Realignment funding for the past five years,
- Modest growth in Vehicle License Fee Realignment revenue that has not always kept **pace** with unavoidable cost increases,
- The **lack** of any cost of living adjustment in the State's Medi-Cal specialty mental health managed care program allocation for the past five years,
- The **increased** County match requirement for Early and Periodic Screening, Diagnosis and Treatment services for children and youth,
- The Department's absorption of \$34.6 million in prior-year costs for the AB 3632 program that have not yet been reimbursed through the SB 90 process, and
- The termination of \$14.4 million in 1115 Waiver Medicaid Demonstration Project funding effective June 30, 2004.

The reality of unavoidable cost increases and increased service demands without commensurate ongoing revenue increases has put the Department in an untenable situation that can only be solved by some combination of reductions in operational costs and services, and aggressive revenue production efforts.

FY 2006-07 Budget Reduction Plan

Based on discussions with CAO staff, we have developed a plan for FY 2006-07 that would require \$17.7 million in bridge funding to enable a phased in approach to the proposed reductions. The bridge funding would cover the costs related to implementation delays that would occur due to the inability to fully implement the plan by July 1, 2006. Any additional surplus funds available at the end of the fiscal year beyond the \$5 million assumed in the reduction plan would partially offset the bridge funding.

The attached chart (Attachment I) summarizes the actions that would be taken to reduce the budget deficit by the end of FY 2006-07. It also shows the actions that would be taken to ensure a balanced budget in FYs 2007-08 and 2008-09.

We have focused primarily on curtailment actions that would minimize the impact on service delivery. The single largest savings is the curtailment of current budgeted costs for the Augustus F. Hawkins Urgent Care Center, the Olive View Urgent Care Center, and a portion of self help activities that can appropriately be charged to MHSA funding since they are directly related to line items in the approved CSS Plan. In addition, these activities were not in place at the time of the enactment of the MHSA and, therefore, are eligible for MHSA reimbursement.

The plan also includes the curtailment of 142 clinical positions in the DMH directly operated clinics. This reduction can be achieved by changing the service delivery

system for clients who have remained uninsured for 12 months or longer. The change would focus on three strategies: 1) identifying those among this 10,000 who are disabled and either getting these seriously ill clients signed up for benefits or transferring them if they are currently inappropriately served to full service partnerships funded by MHSA; 2) providing focused, problem-oriented treatment so that those in treatment with an existing mental illness that is not disabling can be successfully treated in a year's time; 3) creating alternate community resources (wellness centers, self-help groups, partnerships with faith-based organizations, and linkages with primary care) so that some non-disabled mental health clients can be successfully transferred to community rather than County supports for their continued recovery.

Attachment II is a narrative description of each item shown in the chart and a description of any projected impact.

Staffing Plan

The 260 ordinance items (258.5 Full Time Equivalents) requested in the CSS Plan Board letter are necessary to implement the components of the Plan. These items will be given special identifiers in our item control so that we can accurately capture costs eligible to be reimbursed with MHSA funds. In addition, we must be able to clearly demonstrate to the State that these are new items dedicated to CSS Plan activities to prevent any supplantation concerns.

Our budget reduction plan includes the elimination of 142 current budgeted positions. Those positions are associated with activities that will no longer be performed. Our plan is to offer voluntary transfers to any of our staff who are interested in the vacant CSS Plan or Foster Care Mental Health Services positions for which they qualify. If there are not enough volunteers to cover the staff impacted by the curtailment of the 142 positions, we will follow Civil Service Rules regarding involuntary transfers to place any remaining staff.

Attachment III is the detailed list of the 142 positions, as well as the mitigation plan to prevent the need for layoffs. Details of the hiring plan for the 260 CSS Plan positions and the 86 additional positions in the Proposed Budget will be provided at the briefings that we are scheduling next week with the Budget and Health Deputies in each of your offices. During those briefings we will also provide the back up detail for each component of the plan and will respond to any questions or requests for additional information.

Each Supervisor
May 12, 2006
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Staff have been assigned to develop the operational plan for implementing these curtailments. Details of that plan will be provided to you at least a week in advance of Budget Deliberations.

Please let me know if you need any additional information, or your staff may contact Susan Kerr at (213) 738-4108.

MJS:SK

Attachments

c: Chief Administrative Officer
Executive Officer, Board of Supervisors
Health Deputies
Budget Deputies
Rene Phillips, CAO
DMH Executive Management Team

LOS ANGELES COUNTY
DEPARTMENT OF MENTAL HEALTH
SUMMARY OF MULTI-YEAR BUDGET REDUCTIONS
(\$ in Millions)

Projected Budget Deficit		FY 06-07	FY 07-08	FY 08-09
1	CAO Proposed Budget	\$ (48.3)	\$ (48.3)	\$ (48.3)
2	Anticipated Cost Increases	(4.9)	(13.3)	(21.0)
3	IMD Cost Increases	-	(2.6)	(2.6)
4	Loss of 1115 Waiver Funding	(14.4)	(14.4)	(14.4)
5	EPSDT Expansion	-	(1.5)	(3.0)
6	Healthy Families Expansion	(1.6)	(3.2)	(4.8)
7	IS Issues	?	?	?
	Total Projected Deficit	\$ (69.2)	\$ (83.3)	\$ (94.1)
Mitigation Actions				
8	Transformation of 1115 Waiver Service to MHSA	\$ 14.4	\$ 14.4	\$ 14.4
9	Ongoing Fund Balance	5.0	5.0	5.0
10	Administrative Savings	2.5	2.5	2.5
11	Redirect Community Outreach Services	1.7	2.0	2.0
12	Curtailment of Unused Contractor County General Funds	5.0	5.0	5.0
13	Transform Services Eligible Under MHSA CSS	8.0	8.0	8.0
14	Benefits Establishment	3.5	6.3	6.3
15	Curtail Adult Day Treatment	1.2	1.6	1.6
16	Curtail IMD Beds to Offset Rate Increase	-	2.6	2.6
17	Medi-Cal Managed Care Savings	0.5	1.0	1.0
18	Redirection of Non Disabled Consumers	6.0	12.0	12.0
19	Medications Savings	1.0	2.5	2.5
20	Vehicle License Fee Realignment Growth	-	7.3	14.7
21	IS/MHMIS Legacy Conversion	-	2.0	2.0
22	Medi-Cal Rate Recoupment for Additional Cost	2.7	7.3	10.7
23	State Managed Care COLA	-	3.8	3.8
	Total Mitigations	\$ 51.5	\$ 83.3	\$ 94.1
24	Required Bridge Funding FY 06-07 only	17.7	-	-
	Total Solutions	\$ 69.2	\$ 83.3	\$ 94.1

**LOS ANGELES COUNTY
DEPARTMENT OF MENTAL HEALTH
SUMMARY OF MULTI-YEAR BUDGET REDUCTIONS**
Explanation of Items

Projected Budget Deficit

1. CAO Proposed Budget:

Description of item/action: Reflects the Department's unspecified reduction adjustment included in the Proposed Budget Request and subsequently revised to reflect additional other unavoidable cost increases (retiree insurance, Institutions for Mental Disease (IMD) Facility cost-of-living adjustment (COLA), medication cost).

The Department has already implemented several actions to mitigate and self finance mandated and unavoidable cost increases the Department must absorb. These actions are assumed in the Fiscal Year (FY) 2006-07 Proposed Budget. The Department funding sources were cut by \$14.4 million due to the loss of Federal 1115 Waiver reimbursement. The Department has aggressively taken steps to transform service delivery components within its system to qualify at least \$14.4 million of its activities for reimbursement under the Mental Health Services Act (MHSA) Community Services and Supports (CSS) Plan. Further, in FY 2004-05 the Department curtailed \$7.5 million of discretionary administrative expenditures to minimize any need for service reductions. These administrative curtailments continue to be reflected in this budget proposal.

To improve revenue generation the Department implemented strategic and standardized claims management processes to optimize revenue generation in its own directly operated clinics. These actions resulted in increased revenues allowing the Department to exceed its FY 2004-05 revenue targets by \$5.3 million as well as anticipated increased revenue generation for FY 2006-07 of approximately \$7.8 million.

2. Anticipated Cost Increases

Description of item/action: Reflects additional costs related to anticipated salaries and employee benefits (S&EB) COLA being negotiated with labor unions, and associated cost increases passed on from other County Departments relative to the S&EB COLA for services provided.

3. IMD Cost Increases

Description of item/action: Reflects the State mandated 6.5 percent COLA increase in the cost per bed for IMD beds.

4. Loss of 1115 Waiver Funding

Description of item/action: Reflects the cessation of the Federal reimbursement under the 1115 Waiver Medicaid Demonstration project for outpatient clinic services effective June 30, 2005. The FY 2005-06 budget mitigated the loss of this program revenue (\$14.4 million) with MHSA CSS Plan funding for new services being provided.

The Department is engaged in transformation of its clinic services and contract agencies services to be eligible for funding through the MHSA CSS Plan. To the extent this transformation effort exceeds \$14.4 million, the balance will reduce the budget deficit.

5. **EPSDT Expansion**

Description of item/action: Reflects the Department's unfunded required County match to leverage Federal Financial Participation (FFP) and State General Funds (SGF) for anticipated growth in this program for eligible children and adolescents under age 21. The County growth match is 5percent percent of gross program expenditures.

6. **Healthy Families Expansion**

Description of item/action: Reflects the Department's unfunded required County match to leverage FFP and SGF matching funding for additional growth related to this mandated program. The County match requirement is 33 percent.

7. **IS Issues**

Description of item/action: Relates to potential liabilities associated with DMH information systems.

Mitigation Actions

8. **Transformation of 1115 Waiver Service to MHSA**

Description of item/action: Reflects the Department's transformation of \$14.4 million in previous services to new activities eligible for funding under MHSA.

Does this impact services? Yes, services are provided to a more disabled group of clients.

Impact Statement: Transformation of these services has enabled the Department to mitigate service reduction of \$14.4 million. Services are being transformed and focused on MHSA activities included in our approved CSS Plan. A key example is Full Service Partnerships which are more client oriented, recovery based, and provide services on an as needed basis 24/7 to meet their specific service and collateral needs of the individual client.

9. **Ongoing Fund Balance**

Description of item/action: Reflects an increase in ongoing revenue related to projected savings from prior-year operations. The Department has historically ended each fiscal year with unanticipated additional funds available in its Realignment Sales Tax Trust Account.

The Realignment trust fund balance is anticipated to annually retain approximately \$5 million as carryover for each subsequent year operations. The savings may result from revenue maximization efforts in the directly operated clinics, contract savings, savings in cost for services provided by other County departments, or savings in operating costs.

Does this impact services? No

Impact Statement: No adverse impact to client services; will enable the Department to maintain status quo services.

10. Administrative Savings

Description of item/action: Reflects anticipated ongoing operational savings of \$2.5 million resulting from aggressive operating efficiency improvements. The Department will implement selected strategies, including some identified in its Department-wide Cost Savings Survey conducted during FY 2005-06.

Does this impact services? No

Impact Statement: No adverse impact to client services; will enable the Department to maintain status quo services.

11. Redirect Community Outreach Services

Description of item/action: Reduces Community Outreach Services (COS), both Mental Health Promotion and Community Client Services, funded entirely by County General Fund. This reduction plan was approved by DMH Stakeholders in May 2004 but was not acted upon when additional one-time funds were available.

Does this impact services? Not direct client services, only outreach activities.

Impact Statement: There should be minimal impact. While funding will be reduced for some of the services currently provided, agencies will have the ability to complete for MHSA funding for similar activities that are consistent with the MHSA CSS Plan.

12. Curtailment of Unused Contractor County General Funds

Description of item/action: Reduces Maximum Contract Amounts for services to the uninsured to reflect the actual level of expenditures incurred in the prior year.

Does this impact services? No

Impact Statement: There would be no direct impact on services since they weren't being provided by the agency. The ability to address future unmet needs will be diminished, although new clients needing services would be referred by Service Area Navigators to an agency with available funding or to a directly operated clinic.

13. Transform Services Eligible Under MHSA CSS

Description of item/action: Based on a review of the current budget, costs associated with the Augustus F. Hawkins Urgent Care Center, the Olive View Urgent Care Center, and a portion of self help activities can be appropriately charged to MHSA funding since they are directly related to line items in the approved CSS Plan. In addition, these activities were not in place at the time of the enactment of the MHSA and, therefore, are eligible for MHSA reimbursement.

Does this impact services? No

Impact Statement: No adverse impact to client services.

14. Benefits Establishment

Description of item/action: The Department is improving its ability to ensure that all clients **are** identified for appropriate benefits and that they are successfully linked with those **benefits**. Establishing benefits is of great importance for the client's quality of life as well **as** for the funding these benefits generate to support our programs. The benefits establishment process will target all clients receiving services to ensure that:

- **Every** child from birth through 17 years old applies for all benefits to which they are eligible.
- **Every** client that meets the Supplemental Security Income (SSI) eligibility requirements will have an application generated by clinical staff or peer advocates.
- **Every** client will be tracked by the provider to ensure that benefits are applied for as soon as they are eligible.
- **Denied** or rejected applications will be appealed within the applicable guidelines.
- **Providers** will be monitored to ensure that they are actively pursuing all benefits for uninsured clients.

Does this impact services? No

15. Curtail Adult Day Treatment

Description of item/action: Curtail Day Treatment services provided to individuals with no payor sources. This reduction plan was approved by DMH Stakeholders in May 2004 and not fully implemented. Delegates recommended no funding for this service in part because evidence does not demonstrate the effectiveness of these services, and other service modalities—e.g., self-help groups—are more effective. These consumers would be served more effectively in wellness and recovery centers and by peer support and self-help groups. For persons in need of intensive services, they could be eligible for enrollment into a Full Service Partnership program funded by MHSa.

Does this impact services? No

Impact Statement: Clients would be able to continue receiving other appropriate services.

16. Curtail IMD Beds to Offset Rate Increase

Description of item/action: Reflects a curtailment in IMD beds purchased system-wide to offset COLA increases.

Does this impact services? Yes

Impact Statement: The action will result in 57 fewer beds available for clients transferred from jails and hospitals. Alternative placements will be available through activities included in the CSS Plan.

17. Medi-Cal Managed Care Savings

Description of item/action: Managing the care of high utilizing Medi-Cal consumers served in outpatient settings. There are hundreds of consumers who are receiving extensive, uncoordinated and possibly ineffective outpatient care. This action would review cases at or above an established service or cost threshold (to be determined) for clinical appropriateness which should lead to actions that result in better consumer outcomes, appropriate treatment levels and cost efficient service delivery.

Does **this** impact services? No

Impact **Statement**: Clients would continue to receive services. Those services would be more **focused** and effective.

18. Redirection of Non Disabled Consumers

Description of item/action: Our data show that there are currently about 10,000 **uninsured** clients in the directly operated clinics who have remained in treatment without a payer source for more than one year. This plan would focus on three strategies: 1) **identifying** those among this 10,000 who are disabled and either getting these **seriously** ill clients signed up for benefits or transferring them if they are currently **inappropriately** served to full service partnerships funded by MHSA; 2) providing **focused**, problem-oriented treatment so that those in treatment with an existing mental illness **that** is not disabling can be successfully treated in a year's time; 3) creating **alternate** community resources (wellness centers, self-help groups, partnerships with **faith-based** organizations, and linkages with primary care) so that some non-disabled mental **health** clients can be successfully transferred to community rather than County supports for their continued recovery.

Does **this** impact services? Yes

Impact **Statement**: We estimate that by the end of FY 2006-07, this approach would allow **us** to re-direct some of the existing staff serving these uninsured clients to other duties. **We** estimate that by the beginning of FY 2007-08 about 142 DMH staff would be affected. Some would be vacant items eliminated, some would be staff assigned to "transformed" MHSA duties, and some would be staff transferred to other duties supported by revenue. Systems navigators funded by MHSA would be employed to make **sure** that clients were discharged in a safe and caring fashion. Crisis services would be available in the event that problems arose.

19. Medications Savings

Description of item/action: Based on aggressive benefits establishment efforts, the number of uninsured clients will decrease, and there will be commensurate savings in medication costs paid by DMH.

Does this impact services? No

20. Vehicle License Fee Realignment Growth

Description of item/action: Reflects the projected increase in vehicle license fee realignment revenue based on a 6.8 percent growth for 2007-08 and a 6.3 percent growth for 2008-09.

Does this impact services? No

Impact **Statement**: This will enable the Department revenue base to at least partially keep pace with unavoidable cost increases.

21. IS/MHMIS Legacy Conversion

Description of item/action: DMH is paying approximately \$6 million per year in maintenance and operations charges for the combination of the Integrated System (IS) and Mental Health Management Information System (MHMIS). Of this amount,

approximately \$4 million is for operating the County mainframe computer at the Internal Services Department (ISD). When the IS was developed, the theory was that it would continue to be necessary to operate the mainframe in order to accurately process claims to the State. However, since November 2005 DMH has been processing both Medicare and Medi-Cal claims directly from the IS and has found the claim success rate has actually improved. This experience raises the possibility of extricating DMH from the MHMIS and saving significant operating expense.

The preliminary estimate is that DMH will begin scaling back its mainframe use by the end of calendar year 2006 and substantially reduce mainframe use, if not entirely eliminate it, by mid 2007.

Does this impact services? No

22. Medi-Cal Rate Recoupment for Additional Cost

Description of item/action: Reflects the estimated additional Medi-Cal reimbursement related to additional SEB and other County department COLA's. Approximately 55 percent of these cost increases are recoverable through the Department's Medi-Cal reimbursement.

Does this impact services? No

23. State Managed Care COLA

Descriptions of item/action: Reflects the anticipated COLA related to the State Managed Care allocation. We are estimating a 5 percent COLA. This adjustment is applied to the DMH allocation of \$75 million.

Does this impact services? Yes

Impact Statement: This additional revenue will reduce the budget deficit.

24. Required Bridge Funding FY 2006-07 Only

Description of item/action: Reflects net County cost overmatch to provide one-time bridge funding while the Department prepares to transform and restructure services to address DMH's budget gap.

Does this impact services? Yes

Impact Statement: It allows DMH the necessary time to implement the budget reduction actions in an organized way. In order to prevent major disruptions in service delivery planning must take place to design and implement the operational changes that must be made in the directly operated clinics.

**COUNTY OF LOS ANGELES - DEPARTMENT OF MENTAL HEALTH
PROPOSED CURTAILMENT MITIGATED WITH DEPARTMENT VACANCIES
as of May 12, 2006**

Item No.	Position	MHSA Vacancies	Specialized Foster Care Vacancies	Matching Vacancies	Totals	Proposed Curtailment	Variances
00647	Accountant II	6			6		6.0
00643	Accounting Technician II	1			1		1.0
00888	Administrative Assistant II	1			1		1.0
00889	Administrative Assistant III	3			3		3.0
01002	Administrative Services Manager I	1			1		1.0
08697	Clinical Psychologist II	11	2		13	9	4.0
08694	Clinical Psychology Intern		2		2		2.0
08108	Community Services Counselor	2			2		2.0
08103	Community Worker	33			33	14	19.0
01842	Departmental Personnel Assistant	1			1		1.0
01848	Departmental Personnel Technician	2			2		2.0
04720	Division Chief, Program Development, MH	2			2		2.0
00672	Health Care Financial Analyst	5			5		5.0
02593	Information Systems Coordinator	1			1		1.0
02588	Information Systems Analyst Aid	1			1		1.0
02214	Intermediate Typist Clerk	12	2		14		14.0
02109	Management Secretary III	1			1		1.0
09002	Medical Case Worker II	10	4	5	19	18	1.0
04727	MH Analyst I	8			8		8.0
04729	MH Analyst II	12			12		12.0
04731	MH Analyst III	2			2		2.0
04722	MH Clinical District Chief	2			2		2.0
04726	MH Clinical Program Head	4			4		4.0
09030	Mental Health Clinician		2		2		2.0
05278	MH Counselor, RN	4	2	7	13	10	3.0
04735	MH Psychiatrist	2	3	11	16	10	6.0
08148	MH Services Coordinator I	1		3	4	8	(4.0) *
08149	MH Services Coordinator II	34		9	43	10	33.0
05121	Nurse Practitioner	2			2		2.0
09193	Patient Fin Serv Worker (Filled PRW)		2		2		2.0
09192	Patient Resources Worker	1			1		1.0
01334	Payroll Clerk II	2			2		2.0
08152	Program Director, Patients Rights	1			1		1.0
09035	Psych Social Worker II	50	20		70	54	16.0
08973	Research Analyst III, B.S.	3	1		4		4.0
02096	Secretary III	4			4		4.0
00666	Senior Accounting Systems Tech	1			1		1.0
08712	Sr. Community MH Psychologist	2	1		3		3.0
01843	Sr. Departmental Personnel Assistant	1			1		1.0
01849	Sr. Departmental Personnel Technician	4			4		4.0
02102	Senior Secretary III	3			3		3.0
02216	Senior Typist Clerk	5	6		11		11.0
00907	Staff Assistant I	1			1		1.0
00913	Staff Assistant II	2	2		4		4.0
05884	Substance Abuse Counselor		1		1		1.0
08242	Student Worker	1	2		3		3.0
09038	Supervising Psych Social Worker	7	3		10	9	1.0
01865	Training Coordinator, MH	8	2		10		10.0

Total: 260 57 352 142 210

* The 4 unmitigated MH Services Coordinator I items will be offset against the MH Services Coordinator II positions.